

Winston Hickox, Chair
 CalEPA Market Advisory Committee
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Re: Market Advisory Committee Recommendations

Dear Chairman Hickox and Honorable Members of the Market Advisory Committee,

EcoSecurities, a world leader in international and domestic carbon offset origination, development, and trading, would like to congratulate the members of the Market Advisory Committee (MAC) on a strong, well-written, and comprehensive set of recommendations on the implementation of a cap-and-trade system under Assembly Bill 32. We support and commend the Committee's decision to focus on cap-and-trade as the market mechanism of choice, and endorse their assertion that well designed cap-and-trade systems can achieve optimal emissions reductions at least-cost in a way that does not negatively impact environmental justice concerns. Acknowledging the depth and breadth of expertise on the Committee, EcoSecurities would like to respectfully submit the following suggestions, statements of support, and recommendations, based on our 10 years of experience in the international carbon market:

General Comments and Recommendations

- EcoSecurities supports the MAC's emphasis on the importance of a stringent cap in making a cap-and-trade program effective. We also support the institution of mandatory reporting as soon as possible, to ensure accurate accounting of emissions.
- EcoSecurities supports the MAC's recommendation to exclude fugitive emissions and biological processes from the cap, and that these emissions be eligible for offsets. EcoSecurities has extensive experience providing high-quality offsets in these sectors, and would be honored to work with the MAC, CARB, CPUC, and/or CEC to provide our expertise. However, we do not support language which encourages limiting project types, and encourage the MAC to expand the eligible list of sectors to be as comprehensive and inclusive as possible, ensuring that the greatest possible emissions reductions are achieved.
- EcoSecurities supports a comprehensive program design, but we recommend one that ramps up gradually over time. As such a program is phased in, sectors that are as-yet uncovered could undertake voluntary reductions that would be acknowledged as early action, or could be eligible for offsets.
- EcoSecurities supports the MAC's "hybrid" approach to allowances, combining "free-allocation" and auctioning. Lessons from the EU ETS indicate that grandfathering credits can

create perverse incentives for pollution, and can involve considerable wealth transfer from governments to polluting entities. However, 100% auctioning may negatively impact sectors that are unable to pass costs through to consumers. An understanding of the ideal balance between free allocation and auctioning has yet to be determined, and as such, a hybrid approach will allow for this balance to be discovered.

- EcoSecurities generally supports the MAC's assertion that early action should be rewarded; however, we believe that this section merits clarification with regards to how "credit" for early action will be given in lieu of granting offset allowances. In particular, we disagree that additionality would be difficult to determine on early action projects, and would be interested in working with the MAC to explore how this concern could be addressed. We would also like to point out that AB 32 requires CARB to provide "appropriate credit" for early voluntary reductions (see Health & Safety Code section 38562(b) (3)). According to page 9 of "Proposed Early Actions to Mitigate Climate Change in California," published by CARB, "...ARB is also working on interim guidance for quantification, documentation and verification of greenhouse gas emission reductions. Eventually, ARB will define the process for translating voluntary emission reductions into **creditable reductions** (emphasis added) consistent with the broader AB 32 implementation strategy. ARB intends to adopt rules for awarding GHG reduction credit and the process for submitting credit requests." Such language seems in direct conflict with the recommendations of the MAC. We would support CARB's treatment of the subject over that of the MAC's, and would encourage the MAC to streamline their language with that presented above.
- EcoSecurities generally supports the MAC's assertion that a standards-based approach is best with regards to offsets; however, this approach should be implemented carefully, and we would suggest that allowance for a case-by-case method—where appropriate—be considered, especially as a means of introducing new standards-based approaches.
- **EcoSecurities commends the MAC on its treatment of offsets, particularly its rejection of geographic and/or quantitative limits. Given that climate change is a global problem, all real, additional, independently verifiable, permanent, enforceable, and transparent emissions should be included.**
- **EcoSecurities does not support language which suggests that potential limitations on offsets be introduced in initial phases of the program with a view to gradual relaxation. While we understand environmental justice concerns over hotspots, we would like to reinforce the fact that AB 32 governs greenhouse gases, *not* local air pollutants which cause health problems and hotspots. While we understand that these localized pollutants are often emitted along with greenhouse gases, it is not the charge of AB 32 to deal with this problem, and such issues should remain under the jurisdiction of relevant legislation and regulatory bodies. Remembering that climate change is a global issue, consideration should also be given to the larger environmental justice issues related to the impacts of climate change that are currently negatively impacting marginalized people in less developed countries such as small island developing states (SIDS) across the world.**
- EcoSecurities supports the MAC's recommendation for linking with other cap-and-trade programs, provided that they are of high quality and integrity. We also support the MAC's recommendation that voluntary markets be ineligible for linking.

- EcoSecurities supports the MAC's rejection of a price cap, or price pressure valve. We believe that the market should be allowed to function, and that the inclusion of artificial constraints such as price caps will only lead to market dysfunction and decreased environmental integrity of the system.

Specific Comments and Recommendations

- On page 14, the report states: "A cap-and-trade system does not obviate the need for such technology policies and should contain elements that will avoid damage to voluntary markets for renewable energy credits." **We recommend improving clarity on how such avoidance of "damage" to REC markets will be achieved.**
- On page 19, the report states: "The connection between the cap-and-trade program and policies directly aimed at promoting the development of new technologies deserves attention. As discussed in the previous chapter, the cap-and-trade program addresses one type of market failure (stemming from the climate-change externality associated with greenhouse gas emissions) but does not address other types of market failures that may impede the development and deployment of new technologies. Accordingly, the existence of a trading program does not eliminate the need for direct, technology-oriented policies: rather, these policies are complementary." **An explicit discussion of how these policies could work together in a complimentary manner is recommended.**
- On page 59, the report states that offsets should be "predictable." Unlike the other criteria listed, "predictability" is not footnoted with a definition, and therefore, we are concerned about its inclusion as predictability has not traditionally been a requirement of offsets. **We would recommend that the MAC provide guidance on specifically what they mean by the term "predictable."** We would also recommend that the MAC keep in mind that many offset types and technologies are somewhat unpredictable given that they frequently rely on natural processes that cannot be fully controlled.

We would like to thank the Committee for the opportunity to provide comments on their "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California." Comments from the International Emissions Trading Association (IETA), which we also support, are being sent under separate cover as well. We would also like to offer the MAC, CARB, CPUC, and the CEC our expertise with regards to offsets as the implementation of AB 32 continues. With one of the largest and most well-known carbon credit portfolios in the industry, featuring market milestones such as the first Kyoto project to be registered by the UN, and the first project to receive Certified Emission Reductions (CERs), as well as awards for "Best Project Developer" by both Point Carbon and Environmental Finance Magazine, and "Leading Greenhouse Gas Advisory Firm Worldwide" by readers of Environmental Finance for the sixth year in a row (2001-2006), we are in a unique position to leverage our experience to ensure that California's cap-and-trade system successfully and comprehensively incorporates offsets to achieve maximum emissions reductions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Aimee Barnes". The signature is fluid and cursive, with the first name "Aimee" being more prominent than the last name "Barnes".

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